

Message Text

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44

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AEC-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-05 SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02

USIA-15 PRS-01 /107 W

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P R 181026Z FEB 75

FM AMEMBASSY OSLO

TO SECSTATE WASHDC PRIORITY 9317

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USEC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

USMISSION NATO

AMEMBASSY PARIS

USOECD PARIS

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: ENRG NO

SUBJ: NEW "LIBERALIZED" EXCESS PROFITS TAX PROPOSAL SUBMITTED TO
PARLIAMENT

REF: OSLO 5442, DECEMBER 17, 1974

BEGIN SUMMARY: THE GOVERNMENT SUBMITTED ITS MORE MODERATE "EXCESS
PROFITS" TAX PROPOSALS TO PARLIAMENT ON FEBRUARY 14. THE GOVERN-
MENT ESTIMATES THAT TOTAL TAX LEVELS UNDER THE PROPOSALS WILL
AVERAGE BETWEEN 57 AND 66 PERCENT AND THAT EVEN SMALL FIELDS WILL
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BE COMMERCIALY EXPLOITABLE UNDER THEM. THE FIRST REAL INDICATION

OF THE ACCEPTABILITY OF THE PROPOSALS WILL COME ON FEBRUARY 28TH WHEN COMPANIES MUST DECIDE WHETHER TO ACCEPT OR REJECT THE FIVE CONCESSION AWARDS MADE IN LATE 1974. END SUMMARY.

1. THE NORWEGIAN GOVERNMENT SUBMITTED TO PARLIAMENT ON FEBRUARY 14 A WIDE RANGING PROPOSAL FOR CHANGES IN TAXATION OF OIL AND NATURAL GAS INCOME, INCLUDING A PROPOSAL FOR A SPECIAL TAX ON TOP OF REGULAR INCOME TAXES WHICH THE GOVERNMENT PROPOSES TO SET AT 25 PERCENT. THE GOVERNMENT ESTIMATES THAT THE TAX CHANGES COULD RAISE ITS TAX TAKE FROM THE EKOFISK FIELD FOR THE FIVE-YEAR PERIOD 1976-80 FROM APPROXIMATELY 40 BILLION KRONER (\$8 BILLION) TO APPROXIMATELY 60-65 BILLION KRONER (\$12-13 BILLION).

2. THE GOVERNMENT ALSO ESTIMATES THAT THE NEW TAX PROPOSALS WILL RAISE AVERAGE TAX LEVELS ON NET INCOME OVER THE LIFE OF AN OIL FIELD TO BETWEEN 57 AND 66 PERCENT. THE MAXIMUM TAX WILL BE 75.8 PERCENT -- 50.8 PERCENT REGULAR TAX PLUS 25 PERCENT SPECIAL TAX.

3. IN CALCULATING PAYMENTS UNDER THE 25 PERCENT SPECIAL TAX, BUT NOT REGULAR INCOME TAXES, COMPANIES WILL BE ALLOWED A SPECIAL "FREE INCOME" ALLOWANCE EQUIVALENT TO 10 PERCENT IN ANY GIVEN YEAR OF THE PURCHASE VALUE OF ALL INSTALLATIONS AND EQUIPMENT, INCLUDING PIPELINES, PUT IN USE DURING THE PROCEEDING 15 YEARS.

4. IN CALCULATING BOTH REGULAR INCOME TAXES AND THE SPECIAL TAX PAYMENTS, THERE WILL BE NO TAX ON DISTRIBUTED INCOME PAID OUT OF A CURRENT YEAR'S PROFITS. (THIS IS ALREADY THE CASE FOR REGULAR INCOME TAXES.) PREVIOUS LOSSES MAY BE CARRIED FORWARD 15 YEARS, AN INCREASE FROM 10, ALTHOUGH THE MAXIMUM DEDUCTION IN ANY ONE YEAR IS LIMITED TO 33 1/3 PERCENT OF LOSSES CARRIED FORWARD OVER THE PREVIOUS 14 YEARS. SIX-YEAR STRAIGHT LINE DEPRECIATION OF TRANSPORTATION AND PRODUCTION FACILITIES IS ALSO PROPOSED.

5. A "RING FENCE" AROUND THE WHOLE OF THE NORWEGIAN CONTINENTAL SHELF, BUT NOT AROUND INDIVIDUAL FIELDS AS PREVIOUSLY CONTEMPLATED, WILL BE ESTABLISHED FOR THE DEDUCTION

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FROM PRODUCTION INCOME OF UP TO 100 PERCENT OF LOSSES OR EXPENSES FROM OTHER ACTIVITIES IN OTHER PARTS OF THE NORWEGIAN CONTINENTAL SHELF. IN ADDITION 50 PERCENT OF LOSSES IN OTHER NORWEGIAN ACTIVITIES MAY BE DEDUCTED FROM REGULAR INCOME TAXES. FOREIGN LOSSES CANNOT BE DEDUCTED.

6. NORM PRICES BASED ON ARMS LENGTH, FREE MARKET PRICES WILL BE SET BY THE MINISTRY OF INDUSTRY. THEY WILL BE USED

IN CALCULATING INCOME AND WEALTH TAXES, INCLUDING THE SPECIAL TAX, FOR ROYALTY PURPOSES AND FOR BUY BACK SALES. PROVISION IS MADE FOR CERTAIN EXCEPTIONS AND FOR ARBITRATION FOR ROYALTY AND BUY BACK OIL. NATURAL GAS NORM PRICES WILL BE BASED ON ACTUAL CONTRACT PRICES.

7. THE TAX PROPOSALS WERE SUBMITTED TO PARLIAMENT IN THE FORM OF CHANGES IN EXISTING TAX LAWS. A SEPARATE PROPOSAL WILL BE SENT TO PARLIAMENT LATER SETTING THE RATE OF THE SPECIAL TAX, THE LEGAL FRAMEWORK FOR WHICH WAS INCLUDED IN THE OTHER PROPOSALS, AT 25 PERCENT. THIS RATE WILL THEN BE SUBJECT TO ANNUAL REVIEW IN THE SAME WAY AS OTHER TAX RATES. THE FINANCE COMMITTEE OF PARLIAMENT WILL PROBABLY BEGIN CONSIDERATION OF THE PROPOSALS SHORTLY, AND THE GOVERNMENT HOPES THAT PARLIAMENT WILL APPROVE THE PROPOSALS BEFORE THE END OF MARCH.

8. THE MINISTRY OF INDUSTRY HAS SET A DEADLINE OF 14 DAYS FROM THE DATE OF SUBMISSION OF THE PRESENT PROPOSAL TO PARLIAMENT FOR ACCEPTANCE OR REJECTION OF THE FIVE CONCESSION AREAS AWARDED IN LATE 1974. UNLESS THIS DEADLINE IS EXTENDED BEYOND FEBRUARY 28TH, ACCEPTANCE OR REJECTION OF THESE AWARDS BY THE COMPANIES RECEIVING THEM WILL CONSTITUTE THE FIRST CLEAR INDICATION OF THE ACCEPTABILITY OF THE TAX PROPOSALS. IF A NUMBER OF COMPANIES WITHDRAW FROM THESE AWARDS, THE GOVERNMENT WILL THEN HAVE TO DECIDE WHETHER TO TRY TO PUSH THE PROPOSALS THROUGH UNCHANGED OR TO MODIFY THEM. FINANCE MINISTRY OFFICIALS WHO DRAW UP THE PROPOSALS IN CONSULTATION WITH THE OIL COMPANIES BELIEVE THEY HAVE TAKEN MOST OIL COMPANY CONCERNS INTO ACCOUNT, THAT THE PROPOSALS WILL PROVE GENERALLY ACCEPTABLE, AND THAT EVEN SMALL FIELDS CAN BE DEVELOPED PROFITABLY UNDER THEM. ONE PROJECTION SHOWS PROFITABILITY WILL ONLY BE REDUCED 2.6 PERCENT TO 18.7 PERCENT UNDER THE PROPOSALS.

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9. TRANSLATION INTO ENGLISH BY THE GOVERNMENT OF THE NEW TAX PROPOSALS IS EXPECTED TO BE COMPLETED WITHIN A WEEK. COPIES WILL BE FORWARDED ASAP.

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